

Office of the President**ACTION ITEM**

For the Meeting of March 16, 2006

**DIVESTMENT OF UNIVERSITY HOLDINGS OF COMPANIES WITH
BUSINESS OPERATIONS IN SUDAN****RECOMMENDATION**

In light of The Regents' decision to consider divestment of investments in companies doing business in countries with state-sanctioned genocide which has been officially identified by the U.S. Government and The Regents' findings that the U.S. Government has determined that there is ongoing genocide in the Darfur region of Sudan:

It is recommended that The Regents:

1. **Divest all shares of the following nine companies: Bharat Heavy Electricals Ltd., China Petroleum and Chemical Corp. (Sinopec), Nam Fatt Co. Bhd., Oil & Natural Gas Co. Ltd., PECD Bhd., PetroChina Company Ltd., Sudan Telecom Co. Ltd. (Sudatel), Tatneft OAO, and Videocon Industries Ltd.,** held within separately managed equity portfolios of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP). The proposed policy would apply to both indexed and actively managed, publicly-traded equity portfolios
2. **Prohibit future purchase of shares in the above nine companies** until such time as the Office of the Treasurer reports to the Committee on Investment that either there is compelling information that a company has materially improved its operation and is no longer thought to be contributing to the suffering in the Darfur region of Sudan, or that the situation in the Darfur region has improved to such a point that the prohibition on investment is no longer thought to be in the best interests of the people of Sudan.
3. Condition implementation of the proposed divestment policy upon enactment by the California legislature and signature by the Governor of legislation providing indemnification for past, present, and future individual Regents, and the University, its officers, agents, and employees, for all costs and defense of any claim arising from the decision to divest.
4. Instruct the Office of the Treasurer to contact the management of several other companies identified by the Sudan Divestment Study Group to ask them to ensure that their business operations in Sudan, while providing beneficial effects for the people of Sudan, do not inadvertently contribute to the campaign of genocide.

5. Instruct the Office of the Treasurer to report on the status of this policy to the Committee on Investments as part of the annual review of the Investment Policies for the UCRP and GEP.
6. Divest all shares held in the nine companies within an 18-month period commencing once indemnification legislation has been enacted.
7. Communicate the decision to divest shares held in the nine companies to the managers of commingled accounts in which assets of the UCRP and GEP are invested, with a request that they consider the University's stand on this issue as they make their investment decisions.
8. Communicate the decision to divest shares held in the nine companies to the Investment Committees of the Campus Foundations so that they may consider adopting similar policies for their Funds.

BACKGROUND

At its November 14, 2005 meeting, the Committee on Investments unanimously approved a resolution, proposed by Student Regent Rosenthal, which recommended to the Board of Regents that a comprehensive plan be developed for the UCRP and the GEP to divest from the following foreign companies with significant business relations with the government of Sudan: PetroChina, Sinopec, Tatneft, and ABB, Ltd.

At the January 19, 2006 Regents' meeting, Senior Vice President Mullinix reported on the issues surrounding potential divestment. The Regents voted to contact firms and managers to express concerns about Sudan activities, noting their consideration of divestment, and seeking information regarding Sudan activities and responses to stated concerns. The Regents also approved the formation of a Study Group to develop a divestment plan and report back to The Regents by the March 2006 meeting.

Charge to the Sudan Divestment Study Group

The Study Group was charged with analyzing the issues raised by proposals to divest investments in companies doing business in Sudan from the portfolios of the UCRP and the GEP. The issues to be addressed included:

- Criteria for identifying companies to be divested and identification of companies proposed for divestment.
- The scope of the proposed divestment (including direct and indirect investments).
- The financial impacts of the proposed divestment.
- The legal implications of any proposed divestment.

Chronology of the Sudan Divestment Study Group's actions:

- 2/02/2006: Inaugural meeting of the Sudan Divestment Study Group. Established two subcommittees: Voice Subcommittee (charged with crafting letters to be sent to investment managers and companies) and Criteria Subcommittee (charged with identifying how to evaluate companies). An expansion of the list of companies, beyond the original four in the November 17, 2005 resolution approved by The Regents, was proposed.
- 2/10/2006: Sudan Divestment Study Group's second meeting. The group approved the recommendations of the Voice and Criteria Subcommittees' work. A list of companies to be evaluated, using the approved criteria (see below), was established, and agreement was reached that these companies should be contacted in writing. Agreement was reached to use Institutional Shareholder Services (ISS), an outside research firm, to provide reports on the identified companies.
- 2/13/2006: Letters were sent to all UCRP and GEP equity managers expressing concerns about the activities in Sudan of the companies identified by the Sudan Divestment Study Group and asking for any relevant information on the identified companies.
- 2/16/2006: Letters were sent to executives at the identified companies expressing concern and asking for an explanation of their operations in Sudan.
- 2/20/2006: Sudan Divestment Study Group's third meeting. Group reviewed actions taken (the letters sent) and the status of contract negotiations with ISS. A third subcommittee was established and charged with applying the approved criteria to list of companies.
- 2/24/2006: Office of the Treasurer entered into a contract with ISS for customized research based on the Sudan Divestment Study Group's criteria on the identified companies.
- 3/1/2006: Office of the Treasurer receives research reports from ISS on the identified companies and distributes the information to members of the Sudan Divestment Study Group.
- 3/2/2006: Subcommittee meets to review and discuss all available information on the companies. Subcommittee classified all companies into one of three categories of potential action: divestment, continued dialogue, and no action.
- 3/4/2006: Subcommittee's suggested classification and all supporting company analysis delivered to Study Group members.
- 3/6/2006: Sudan Divestment Study Group's fourth meeting. Group refines subcommittee's recommendation and discusses an initial draft of an action item for the March Regents' meeting.

- 3/7/2006: Financial impact analysis of the proposed Divestment Policy for UCRP and GEP prepared by the Office of the Treasurer and delivered to the Office of the General Counsel.
- 3/8/2006: Office of the General Counsel analyzes the proposed Divestment Policy and the Treasurer's report to assess the legal implications, including whether The Regents will satisfy the standards of conduct to which they are subject by implementing the proposed Divestment Policy.

Sudan Divestment Study Group's Criteria

The following criteria were applied by the Study Group to the list of companies doing business in Sudan to determine the appropriate action: divest, continued dialogue, or no action:

In deciding which companies would not be permitted in the portfolio, the adverse effects caused by a company's business with the government of Sudan (or with government owned companies or consortiums) were weighed against any benefits the company provides to the people of Sudan.

The decision to engage a company in continued dialogue was more likely if that company provides material benefit to the social or economic welfare of Sudanese citizens exclusive of the government, military or government supported militias.

The decision to recommend a company for divestment was more likely if that company provides revenue to the government of Sudan (either directly or through a government owned company or consortium). In addition to companies providing revenue to the government of Sudan, any company found to provide arms or military equipment to the government or government supported militia would be recommended for divestment.

Ultimate divestment candidates were clearly shown to be providing monetary or military support to the government, while showing little or no interest in the situation in Darfur or in helping to improve the welfare of the Sudanese people.

Membership of the Sudan Divestment Study Group

- Joseph P. Mullinix, Senior Vice President, Business and Finance, Chair
- Edward A. Alpers, Academic Senate, Member, Professor, UCLA Department of History
- Charles Martin, Investment Advisory Committee, Member
- David McGraw, Associate Laboratory Director and UCRS Advisory Board Member
- Jason Miller, Co-Chair, UC Sudan Divestment Taskforce
- Ann Posey, Regents' Investment Program Consultant

- Adam Rosenthal, Student Regent
- Adam Sterling, Co-Chair, UC Sudan Divestment Task Force, Darfur Action Committee of UCLA

Office of the Treasurer of the Regents

- Marie Berggren, Interim Treasurer
- Robert Blagden, Managing Director
- David Hughes, Senior Investment Analyst
- Jesse Phillips, Managing Director
- Melvin Stanton, Assistant Treasurer

Legal Advisors:

- David Birnbaum, University Counsel
- Barbara Clark, University Counsel
- Jim Holst, General Counsel